Postal Regulatory Commission
Submitted 3/1/2018 3:41:20 PM
Filing ID: 104027
Accepted 3/1/2018

Before the
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

STATUTORY REVIEW OF THE SYSTEM FOR REGULATING RATES AND CLASSES FOR MARKET DOMINANT PRODUCTS	Docket No. RM2017-3

COMMENTS OF THE NATIONAL POSTAL MAIL HANDLERS UNION

The National Postal Mail Handlers Union ("NPMHU") submits these comments to address the Commission's December 1, 2017 Notice of Proposed Rulemaking on the Statutory Review of the System for Regulating Rates and Classes for Market Dominant Products.

For the reasons set forth below, the NPMHU urges the Commission to amend certain portions of its proposed rules to provide the Postal Service with supplemental rate authority that exceeds 2 points above CPI per calendar year; to allow the Postal Service to bank its supplemental rate authority, if unused, for delayed implementation in later years; to provide equal weighting for the additional rate authority aimed at service and efficiency goals; and to allow the revised ratemaking system to continue for more than five years, until a review of the new system and necessary revisions can be properly implemented.

1. The NPMHU serves as the exclusive bargaining representative for 45,000 mail handlers employed by the Postal Service. These employees and the NPMHU will be directly affected by the Commission's statutory review of the

USPS ratemaking system, both as employees of the Postal Service (or the representative of those employees) and as users of the American postal system.

2. As a general matter, the NPMHU commends the Commission on its proposed rules. In particular, the NPMHU believes that the Commission's analysis regarding its statutory authority to modify the current ratemaking system is clearly correct. *See* PRC Order No. 2458 ("Order") at 4-25. For the reasons set forth in the Order, the Commission certainly is authorized to retain the existing price cap; to modify the existing cap as necessary to meet the objectives set forth in the Postal Accountability and Enhancement Act of 2006 ("PAEA"), 39 U.S.C. § 3622; or to adopt a different system altogether. *Id.* at 14-25.

3. The NPMHU also strongly supports the Commission's proposed grant of additional pricing authority to the Postal Service. We agree with the Postal Service that it needs to be granted additional pricing flexibility so that it has a meaningful opportunity to move towards financial stability. For more than ten years, the Postal Service has been experiencing declining mail volumes, including those products considered to be market-dominant monopolies, and the resulting financial difficulties need to be addressed. At the same time, as the Postal Service and others have demonstrated, the large number of available alternatives to the U.S. Mail mean that the Postal Service has significant inherent incentives to refrain from increasing prices for every class of mail. USPS Comments on Order No. 2457 at 190-201. The Postal Service fully understands that increasing prices could cause further volume

drops that may be self-defeating. *Id.* Thus, because of market constraints and competitive forces that apply to all USPS products, the grant of additional pricing flexibility will not lead to unnecessary or unwarranted price increases.

4. Although the NPMHU supports additional pricing authority in general, we believe that the specific proposal included in the rules promulgated by the Commission – to grant the Postal Service an additional two (2) points of rate authority per calendar year – is insufficient. Moreover, we believe that the analysis limiting this this proposal to 2 points above CPI each year is fundamentally flawed.

The Commission's analysis is based on the conclusion that the Postal Service needs to generate an additional $2.7 billion of revenue each year "to achieve medium-term stability (i.e., to have total revenue equal to all attributable and institutional costs)." Order at 40-41. The Commission draws this $2.7 billion figure from the Postal Service's net loss in the most recent fiscal year, FY 2017, which was $2.7 billion. *Id.* Using this net loss as the benchmark, the Commission concludes that 2 additional points of rate authority will allow the Postal Service to generate $2.7 billion in additional revenue. *Id.*

However, as the Commission recognizes, the Postal Service's net losses for the ten years prior to FY 2017 – that is, from FY 2006 to FY 2016 – ranged from $2.8 billion to $15.9 billion. Order at 40; Order No. 4257 at 168, Table II-10. In other words, the loss of $2.7 billion in FY 2017 was the best single year the Postal Service has had since the beginning of the PAEA era. The average net lost over the past eleven fiscal years has been $5.9 billion, meaning that the Postal Service likely needs more than double the additional annual revenue that the Commission has adopted as its starting point for concluding that 2 points above CPI will be sufficient to achieve financial stability. *See* Order No. 4257 at 168, Table II-10. The NPMHU respectfully disagrees, and believe that more than 2 points above CPI will be necessary to address ongoing declines in mail volume and increases in delivery points, both of which are expected to continue into the foreseeable future.

In short, when the Postal Service's post-PAEA net losses are placed in context, it is readily apparent that more than 2 additional points of rate authority per calendar year is necessary to reach the goal that the Commission has itself identified as controlling – that is, "to achieve medium-term stability (i.e., to have total revenue equal to all attributable and institutional costs)." While there are several ways to structure such an additional increase (e.g., increasing the amount of rate authority available during each successive calendar year; tying increases in rate authority to actual net loss from the most recent fiscal year; or making significant changes to the efficiency-based rate authority, as described below), there is no question that the Postal Service requires some additional authority, beyond the 2 points proposed by the Commission, to achieve medium-term stability.

5. The NPMHU also believes that the additional rate authority proposed by the Commission should be "bankable," so that the Postal Service may make use of its additional, but unused rate authority, in a manner that is

similar to the use of unused rate authority for the current CPI cap under 39 U.S.C. § 3622(d)(2)(C). *See* Order at 119-20, 122-26. Allowing for the delayed use of all additional, but unused rate authority will eliminate whatever incentive the Postal Service might otherwise have simply to implement the entire additional authority each year, and would be consistent with, yet supplementary to, the Congressional direction contained in § 3622(d) regarding unused rate authority. As noted, with significant market constraints already operating to keep the Postal Service from raising prices beyond what is necessary, allowing for the delayed use of the entire amount of unused rate authority could substantially increase USPS flexibility without changing the total grant of pricing authority. Especially in light of the unpredictable future for mail volume, and exogenous changes beyond the Postal Service's control or reasonable prediction, it is important to provide the Postal Service significant flexibility in pricing its products, and allowing for additional banking of unused rate authority will contribute directly to this goal.

6. While the NPMHU agrees that it is not inappropriate to tie some portion of the rate authority to the Postal Service's performance, we disagree with the analysis underlying the operational efficiency-based incentive authority.

As the Commission acknowledges, the Postal Service's capital investments have declined substantially since the institution of the price cap; now, after years of insufficient capital spending, increases in USPS capital investments are necessary to "lead to operational efficiency gains and help maintain high quality service standards." Order at 36, 50-54. Thus, the Commission says, the provision of additional efficiency-based rate authority "aims to put the Postal Service on the path to long-term financial stability by providing the Postal Service the opportunity to generate retained earnings [that] would fund adequate levels of capital investment." Order at 38-39.

Under the Commission's proposed structure, however, the Postal Service is caught in a catch-22: it cannot make significant efficiency gains without capital investments, but it cannot get additional efficiency-based rate authority that could fund capital investments until it makes significant efficiency gains.

Instead of this circular funding proposal, the Commission should provide additional up-front rate authority that would enable the Postal Service to fund capital investments. Once capital investments are made, it may be appropriate to tie additional rate authority to efficiency improvements. But it is unrealistic to expect substantial efficiency improvements absent immediate capital investments.

While the NPMHU agrees with the Commission's proposal for service quality-related incentive authority, we suggest that the relative weights of the two measures be changed. Service quality is at least as important as making continuous efficiency gains; accordingly, it makes sense to weight the factors equally. The NPMHU therefore urges the Commission to adjust the .75/.25 ratio between service and efficiency improvements to a .50/.50 equal weighting.

7. The Commission has proposed "a series of five CPI-U price adjustments with the additional supplemental authority." Order at 45.

However, it is unclear from the Order or the proposed rules what will happen to the Postal Service's pricing authority after five years, if the next ratemaking proceeding is not concluded within that short time period. Eliminating supplemental rate authority after five years without first analyzing the Postal Service's financial condition has the potential to jeopardize any progress made under the Commission's proposed rules, and could damage the Postal Service's long-term financial stability. Hence, the NPMHU believes that the Commission should provide for CPI-U price adjustments, with additional supplemental authority, not simply for five full years, but until such time as a new ratemaking system becomes effective. The Commission also, if it desires, could establish during 2018, even in this rulemaking proceeding, a schedule for reviewing the revised new ratemaking system either within or shortly after the five-year period governed by the proposed rules.

8. We anticipate that parties opposed to increased rate authority will argue, as usual, that the Postal Service should further cut costs, including labor costs. But the Postal Service has already cut labor costs substantially, and there is no basis for arguing that further cuts are appropriate. Most notably, during the past eleven years, there has been a substantial reduction in the number of USPS employees and a noticeable reduction in the average cost of labor. For example, in early 2007, immediately upon the adoption of the PAEA, the Postal Service employed 57,260 mail handlers represented by the NPMHU, whereas today that number is 44,600, for a reduction of more than 22%. *Compare* On Rolls and Paid Employee Statistics (04 – 2018) *with* On

Rolls and Paid Employee Statistics (26 – 2006). Moreover, the National Payroll Hours Summary for February 2018 shows a consolidated hourly rate for all mail handler bargaining-unit wages and benefits, including overtime, of $42.05 per work hour, which is actually lower when compared to the same hourly rate of $42.54 from February 2011, seven years ago. *Compare* National Payroll Hour Summary Report (February 6, 2018) *with* National Payroll Hour Summary (March 15, 2011). Thus, a 22% reduction in the number of mail handlers over the past eleven years has been accompanied by an actual reduction in the average hourly cost of wages and benefits for NPMHU-represented employees during the past seven years. This reduction in the total number of mail handlers and their total personnel costs, in both nominal and real terms, demonstrates the substantive and economic contributions that the NPMHU and its tens of thousands of mail handlers (and other postal employees) have made toward the Postal Service's financial stability.

9. For the foregoing reasons, the NPMHU respectfully submits that the Commission's proposed rules, although representing a significant step in the right direction, will not grant the Postal Service the necessary or sufficient pricing authority or flexibility. Accordingly, the NPMHU urges the Commission to adopt revised regulations that are consistent with these comments, including supplemental rate authority that exceeds 2 points above CPI per calendar year; supplemental rate authority that is front-loaded to allow for immediate capital improvements; supplemental rate authority that, if unused, is bankable for delayed use in later years; equal weighting for additional rate

authority based on service and efficiency goals; and continuation of the revised ratemaking system for more than five years, until a review of the revised system and necessary revisions can be properly implemented.

Respectfully submitted,

/s/

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Dated: March 1, 2018